

LOW-RENT HOUSING
LEASED HOUSING HANDBOOK

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CHAPTER 2. PROGRAM DEVELOPMENT

SECTION 1. APPLICATIONS

1. FORMS AND FILING. The initial step in the development of a Leased Housing Program is to file an Application for a Low-Rent Housing Program, Form HUD-52470, with the appropriate HUD Regional Office. The Application consists of four parts, HUD-52470 and HUD-52470A, B, and C. (Information and instructions concerning the Application are in Handbook RHA 7402.1, Chapter 2.) Advice and assistance in gathering data requested in the Application will be made available by the Regional Office serving the area in which the Authority is located.
2. RENTAL MARKET INFORMATION. After having established the need for low-rent housing, one of the first actions the Local Authority contemplating a leased housing program should take is to survey the private market to determine the vacancy rate in standard rental housing. This would serve as the basis for development of a plan of operations that will avoid or minimize an inflationary effect on the private market. All dwelling units in the private rental market should be included in the survey regardless of their availability to the Local Authority; however, along with the survey of the total market there will have to be an effort to estimate realistically the number of units that may be available to the Local Authority for leasing and the rents at which such units may be leased. In the event this information cannot be obtained from actual housing surveys, estimates may be prepared in consultation with real estate brokers and other competent local sources.
3. FINANCIAL FEASIBILITY.
 - a. The Basic Requirement. As is true for housing assisted under other provisions of the Act, proposed leased housing programs must be financially feasible. This means that the rental income received from the tenants in occupancy together with the annual contributions paid by the Federal Government must be sufficient to cover the rents charged by the owners of the leased dwellings and the operating expenses of the Local Authority.
 - b. Operating Expenses. All anticipated Local Authority operating expenses must be included as part of the feasibility study. Local Authorities with existing programs that intend to prorate salaries of present or additional personnel, maintenance costs, and other expenses shared by both programs should show the basis for the requested proration. Other Authorities should show separately the proposed staffing and salaries.

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The basis for all other estimated expenses should be given in an addendum to the application.

- c. The Feasibility Determination. The total expenses of the Local Authority, comprised of the estimated rents to be charged by owners of leased housing together with the anticipated operating costs, provide the basis for the determination of financial feasibility. Once this information is obtained, the amount of the fixed annual contribution (procedure for developing the figure is contained in Section 2 of this Chapter) is deducted to find the required average rents which the Local Authority must charge to sustain a solvent operation. In the event the required average rent is greater than the average rents which low-income families can afford to pay, after taking into consideration any additional contributions, the proposed leasing program would not be financially feasible and hence ineligible for Federal assistance.
 - d. Local Contributions. There are a number of factors which enter into feasibility determinations and several means are available to Local Authorities to strengthen their financial posture if solvency is in doubt. If it appears necessary, the Authority may wish to ask the local government to make a contribution to achieve lower rents. If the Local Authority is making payments in lieu of taxes on other projects, the contribution might be in the form of a remission or cancellation of these payments. Alternatively, if State law would permit tax exemption for the properties to be leased, it might be made directly by obtaining a Cooperation Agreement and utilizing the Section 10(c) provisions.
 - e. Relating Income Limits and Rent Schedules to Feasibility. If the financial feasibility of a proposed leasing program cannot otherwise be established, those Local Authorities that are already operating low-rent housing may wish to consider increasing their present income limits generally, or establishing higher income limits for the leasing program. In addition, they may find it necessary to consider establishing higher minimum rents, flat rents, or higher rent-income ratios for the leasing program. These actions would tend to improve the financial position. Local Authorities without existing programs must make tentative decisions as to income limits and rent schedules as part of the study of financial feasibility.
4. PROGRAM DEVELOPMENT SCHEDULE.
- a. Expeditious Leasing - Contractual Requirement. In order to

enable HUD to extend its contracting authorization to cover the maximum number of units that will be occupied by low-income families and minimize funds allocated where there is

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no prospect of achieving immediate occupancy, in the review of Applications the program development schedule and plan of operations proposed by the Local Authority will be given detailed attention. These portions of the Application consequently are extremely important and must receive careful consideration. The Annual Contributions Contract includes, in this connection, the following provision:

"The Local authority shall proceed expeditiously with the Leasing of the maximum number of units authorized hereunder, for use and occupancy by Families of Low Income. If the Local Authority does not proceed expeditiously with the Leasing of dwelling units comprising the Project, the Government, by notice to the Local Authority, may reduce its obligation hereunder with respect to the fixed annual contributions for the number and sizes of dwelling units under Lease to the Local Authority at the date of the receipt of such notice by the Local Authority."

- b. Guideline. With respect to the development schedule in general it will be anticipated that all units of leased housing programs of 100 units or more will be leased from owners within a maximum of 52 weeks after execution of the Annual Contributions Contract. For smaller programs completion of leasing within a shorter time should be scheduled.
- c. Schedule Approval - Production Milestones. By letter directed to the Local Authority in conjunction with the execution of the Annual Contributions Contract, HUD will establish target dates by quarter ending and specify the number of units that are expected to be leased from property owners during each quarter. Units to be rehabilitated before leasing will also be scheduled on the same basis. In the case of units to be constructed for leasing the date when units will be completed and leased will be shown; however, if units will be constructed and leased in increments, a quarterly schedule will be established. Where a combination of the above methods are involved, the quarterly schedule shall be used. A failure to adhere to the HUD approved schedule will be considered to be prima facie a basis for reduction of the Government's obligation under the Annual Contributions Contract.

5. CONTRACT COVERAGE OF PROGRAM IN INCREMENTS. HUD may also at its option, while approving units requested in an Application, elect to limit its annual contributions obligation by contracting for units on a fiscal year basis in accordance with the leasing schedule.

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This might be done, for example, if the application is approved for 1,000 units and the leasing schedule indicates that 200 units are to be leased during the Federal fiscal year in which the application is approved and the remaining are to be leased during a subsequent fiscal year. Under those circumstances HUD might initially enter into an Annual Contributions Contract for 200 units and withhold execution of the Annual Contributions Contract covering the remainder of the program until the beginning of the Federal fiscal year in which they are to be leased. The execution of the contract amendment covering the later increments in the program would be contingent upon the Local Authority's adherence to its schedule with respect to earlier increments and, of course, subject to availability of contracting authorization during the year in which that portion of the program is to be approved. As to the latter condition, it would be understood that units covered under an approved Application for which Annual Contributions Contract coverage has been withheld would receive high priority in the allocation of the low-rent housing contract authorization.

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SECTION 2. CONTRIBUTIONS AND SUBSIDIES

1. THE FLEXIBLE FORMULA.

- a. Legal Basis. Since leased housing, whether provided under Section 23 or 10(c) of the Act, utilizes existing housing, a new method for establishing annual contributions has had to be developed. Under the conventional program, specifically, when low-rent dwellings are constructed or acquired, the annual contribution is calculated on the basis of that amount necessary to amortize the bonds sold to finance the cost. The level debt service on total development cost, then,

constitutes the amount of the Federal contribution paid each year to conventionally assisted programs. Both Section 23 and Section 10(c) specify that leased housing may receive a maximum annual contribution which does not exceed the amount of the contribution which would be established for a newly constructed project designed to accommodate the comparable number, sizes, and kinds of families. To arrive at this amount involves the application of what is known as the "flexible formula."

- b. The "Flexible Formula" Concept. To determine the amount of the annual contribution under the "flexible formula," it is necessary to (1) establish the development cost of a newly constructed project designed for the number, sizes, and kinds of families to be housed in the project to which the "flexible formula" would be applied; and (2) multiply that cost by the annual contribution rate that would apply to such newly constructed project.
- c. Dwelling Construction and Equipment Cost (DC&E). The development cost determination will be based upon the estimated average dwelling construction and equipment cost of two-bedroom units in a newly constructed project of the type the Local Authority would be most likely to undertake. This cost figure may be prepared either by the Authority and submitted for approval of the Regional Office, or, at the request of the Authority, by the Regional Office. If the estimate is made by the Local Authority, supporting data should be submitted with the Application.
- d. Unit Size Adjustment Factors. The average dwelling construction and equipment cost for newly constructed units

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of each size in the hypothetical project will be determined by multiplying the estimated average dwelling construction and equipment cost of the two-bedroom units by the appropriate adjustment factor set out below:

0-Bedroom	=	70%
1-Bedroom	=	80%
2-Bedroom	=	100%
3-Bedroom	=	120%
4-Bedroom	=	150%
5-Bedroom	=	170%
6-Bedroom	=	190%

Units designed specifically for elderly or handicapped:

0-Bedroom	=	80%
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1-Bedroom = 90%

e. Statutory Room Cost Limitations. Since a newly constructed project would be subject to statutory limitations on the average cost per room for dwelling construction and equipment, it must be established that the costs developed under the above procedure are within the following provision of the Housing Act:

". . . the cost for construction and equipment of such project (excluding land, demolition, and nondwelling facilities) on which the computation of any annual contributions under this Act may be based shall not exceed \$2,400 per room (\$3,500 per room in the case of Alaska, or in the case of accommodations designed specifically for elderly families \$3,500 per room and \$4,000 per room in the case of Alaska): Provided, that if the (Assistant Regional Administrator for Housing Assistance) finds that in a geographical area of any project (i) it is not feasible under the aforesaid cost limitations to construct the project without sacrifice of sound standards of construction, design, and livability, and (ii) there is an acute need for such housing, he may prescribe in such area contract cost limitations which may exceed by not more than \$750 per room the limitations that would otherwise be applicable to such project hereunder."

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Because the actual number and sizes of the leased units with respect to which annual contributions will be paid may vary substantially from the anticipated number and sizes of units, this procedure provides for application of these limitations for each unit size to assure that the limitations are not exceeded in any case. Assuming for purposes of illustration only that two-bedroom dwelling units would have an average dwelling construction and equipment cost of \$10,000 in the type of newly constructed project that the Local Authority would be most likely to undertake, the room cost computation would be as shown in the following example:

Unit Size	2-BR DC&E Cost		Size Adj. Factor		DC&E Per Unit		No. of Rooms		DC&E Per Room
0-Br	\$10,000	x	.70	=	\$7,000	divided by	3.0	=	\$2,333
1-Br	10,000	x	.80	=	8,000	divided by	3.5	=	2,286
2-Br	10,000	x	1.00	=	10,000	divided by	4.5	=	2,222
3-Br	10,000	x	1.20	=	12,000	divided by	5.5	=	2,182
4-Br	10,000	x	1.50	=	15,000	divided by	6.5	=	2,308

5-Br 10,000 x 1.70 = 17,000 divided by 7.5 = 2,267
 6-Br 10,000 x 1.90 = 19,000 divided by 8.5 = 2,235

f. Imputed Total Development Cost. After establishment of compliance with the room cost limitation, the estimated dwelling construction and equipment cost for each unit size in the hypothetical newly constructed project is multiplied by 150% to provide for site, nondwelling and overhead costs and arrive at a total development cost for each unit size. Utilizing the example above, the computation would be as follows:

Unit Size	DC&E Cost		Adj.		Dev. Cost
0-Br	\$7,000	x	150%	=	\$10,500
1-Br	8,000	x	150%	=	12,000
2-Br	10,000	x	150%	=	15,000
3-Br	12,000	x	150%	=	18,000
4-Br	15,000	x	150%	=	22,500
5-Br	17,000	x	150%	=	25,500
6-Br	19,000	x	150%	=	28,500

g. Application of Annual Contribution Rate. Based on the interest rates achieved on 40-year Bonds sold by Local Authorities, HUD will determine the "Flexible Formula" Annual Contribution Rate which shall be applied in establishing the maximum

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annual contributions to be used in Annual Contributions Contracts executed during the period following such determination. Following the example above, the annual contribution for each unit size for the project would be computed as follows:

Unit Size	Dev. Cost		A/C Rate		A/C Per Unit
0-Br	\$10,500	x	4.826%	=	\$ 507
1-Br	12,000	x	4.826%	=	579
2-Br	15,000	x	4.826%	=	724
3-Br	18,000	x	4.826%	=	869
4-Br	22,500	x	4.826%	=	1,086
5-Br	25,500	x	4.826%	=	1,231
6-Br	28,500	x	4.826%	=	1,375

(NOTE - The contribution rate shown in this example will

not necessarily be the current rate. Current rates will be published.

2. ALTERNATE METHODS OF DETERMINING ANNUAL CONTRIBUTIONS. A Local Authority may submit a proposal based on a computation method other than the above if the Authority believes that, in its case, this procedure does not result in a reasonably accurate estimate of the fixed annual contribution that would be established for the type of newly constructed project that the Authority would be most likely to undertake to house the number, sizes, and kinds of families to be accommodated in the proposed project. The reasons for such a belief and the basis for the computation method proposed by the Authority should be fully explained. HUD, too, may require variations in the formula for establishing annual contributions in those cases where the dwelling units to be leased will not be substantially the equivalent in space or facilities of those that might be constructed by the Authority.

3. ANNUAL CONTRIBUTIONS FOR EXPANDED PROGRAMS. The Annual Contribution Contract anticipates that, in general, all leased housing programmed by a Local Authority will be operated as a single project; however, in the application of the "flexible formula," a change in the Contribution Rate or the estimated Dwelling Construction and Equipment Cost between the time when the original and subsequent programs are placed under contract could result in varying annual contributions if applied individually to each group of units. To avoid this situation and treat all units as comprising one project, contribution amounts are computed for each group of units at pertinent rates and costs computed for each group of units at pertinent rates and costs and a weighted contribution is developed therefrom for the total leased housing program administered by the Local Authority.

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a. Examples. To illustrate this procedure, annual contributions for two separate groups of units are computed below at costs and rates pertinent to each group, and a weighted annual contribution developed therefrom for the program as a whole.

- (1) Initial Program Consisting of 50 Units at a DC&E Cost of \$11,500 and an Annual Contribution Rate of 4.958%.

Unit Size	No.	DC&E	Dev. Cost	A/C Rate	A/C Per Unit	Total Contribution By Unit Size
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0	4	\$ 8,050	\$12,075	4.958%	\$ 599	\$ 2,396
1	6	9,200	13,800	4.958%	684	4,104
2	10	11,500	17,250	4.958%	855	8,550
3	14	13,800	20,700	4.958%	1,026	4,364
4	12	17,250	25,875	4.958%	1,283	5,396
5	4	19,550	29,325	4.958%	1,454	5,816

(2) Subsequent Program Consisting of 80 Units at a DC&E Cost of \$12,500 and an Annual Contribution Rate of 4.826%.

Unit Size	No.	DC&E	Dev. Cost	A/C Rate	A/C Per Unit	Total Contribution By Unit Size
0	10	\$ 8,750	\$13,125	4.826%	\$ 633	\$ 6,330
1	4	10,000	15,000	4.826%	724	2,896
2	22	12,500	18,750	4.826%	905	19,910
3	26	15,000	22,500	4.826%	1,086	28,236
4	18	18,750	28,125	4.826%	1,357	24,426
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(3) Total Program Consisting of 130 Units at Weighted Contribution Amounts.

Unit Size	No.	Total Contribution by Unit Size	Weighted Contribution Per Unit
0	14	\$ 8,726	\$ 623
1	10	7,000	700
2	32	28,460	889
3	40	42,600	1,065
4	30	39,822	1,327
5	4	5,816	1,454

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b. Computation of Weighted Annual Contribution. The total contribution by unit size is found by multiplying the number of units within each size category by the appropriate annual contribution in both programs and combining the results therefrom. The weighted contribution per unit is found by dividing the total contribution by unit size by the total number of units in each category. The weighted contribution amounts are "rounded down" by eliminating any fraction of a dollar obtained in the computation.

4. CONTRIBUTIONS FOR PROGRAMS CONTRACTED IN INCREMENTS. When an Annual Contributions Contract is executed for a portion of a

program that has been approved in an Application pursuant to Section 1, paragraph 5, of this Chapter 2, the maximum per unit annual contribution for units included in the subsequent increments will be the same as that shown in the original contract.

5. EFFECTIVE DATE OF ANNUAL CONTRIBUTIONS CONTRACT CHANGES. In order to avoid complications in the computation of annual contributions payable, the effective date of the provision changing the annual contribution rate of an amended Annual Contributions Contract shall be the first day of a calendar quarter. The specific effective date of the revised rate is to be specified in the amendment.

6. ADDITIONAL CONTRIBUTIONS. As in the conventional program, additional contributions are authorized to be paid on behalf of certain families where such amounts are determined to be necessary to enable the Local Authority to operate a leased housing program on a solvent basis. These operating subsidies relate to elderly families, large families, families of unusually low income and families who were displaced by an urban renewal or public housing project on or after January 27, 1964. 1/ The amount so provided may not exceed \$10 per unit for each month (or part of a month) a dwelling is occupied by a family for which an additional contribution is authorized. A family can be counted only once in determining the additional contribution even though it may qualify in more than one category.

1/ Definitions of these terms are contained in Handbook RHA 7465.1.